Federal Income Taxation Syllabus
(subject to change) (not including some introductory reading material)

Fall 2013
Thursday 5:00 to 7:30 p.m.
Room 102
Law 525-3 § 001
Assoc. Prof. Drennan
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Office: Room 220

“You must pay taxes. But there’s no law that says you gotta leave a tip.”
(Morgan Stanley Brokerage advertisement)
“The hardest thing in the world to understand is the Income Tax.”
(Albert Einstein)
“I love America, but I can’t spend the whole year here. I can’t afford the taxes.”
(Mick Jagger)
“Virtually all persons or objects in this country . . . may have tax problems. Every day the economy generates thousands of sales, loans, gifts, purchases, leases, wills and the like, which suggests the possibility of tax problems for somebody. Our economy is tax relevant in almost every detail.”
(Potter Stewart)

Materials:
Item #3: Course Packet of Supplemental Materials (a/k/a “Corpak”), which will be made available after classes begin. There may be additional handout materials from time to time.

Course Description: This course is a survey of the federal income taxation of individuals. Topics will include the definition of gross income, exclusions from gross income, the requirements for various tax deductions, timing issues, and capital gains and losses. The course will highlight income tax problems frequently faced by general practitioners, such as the tax aspects of divorce, the taxation of settlements and damage awards, the deductibility of attorney fees, and the tax consequences of sales and exchanges.

Exam: There will be one exam at the end of the semester. The exam likely will be a mix of multiple choice and essay questions. It is anticipated that during the exam you can use the Statutory Supplement for the course (which is titled “Selected Sections: Federal Income Tax Code and Regulations” by Steven A. Bank and Kirk J. Stark) (any single edition is acceptable), including any hand-written notes you have made in the Statutory Supplement (including notes on the blank pages at the beginning and end of the book), but you cannot
attach other pages or other items to the Statutory Supplement other than flags or post-it notes. Otherwise, this is a closed book exam, and no calculators are permitted.

**Note on S/U Grading:** The grades of students who have elected to take this course with S/U grading will be converted by the Registrar according to the following scale: 2.1 or greater = Satisfactory; below 2.1 = Unsatisfactory. For those taking this course with S/U grading, only those students who receive a Satisfactory grade will earn academic credit for the course.

**Attendance Policy:** You are allowed to miss three (3) classes.

**Writing Assignment:** We will have a writing assignment to comply with the writing-across-the-curriculum requirement. Satisfactory completion of the assignment is required to be eligible to take the exam and complete the course.

**Recording of Classes:** The class will be routinely recorded (video and audio) by our IT staff. These recorded classes will be available for viewing by students in the Computer Lab in the Law Library in accordance with the customary procedures.

**Emergency Procedures:** Southern Illinois University Carbondale is committed to providing a safe and healthy environment for study and work. Because some health and safety circumstances are beyond our control, we ask that you become familiar with the SIUC Emergency Response Plan and Building Emergency Response Team (BERT) program. Emergency response information is available on posters in buildings on campus, available on BERT’s website at [www.bert.siu.edu](http://www.bert.siu.edu), Department of Safety’s website [www.dps.siu.edu](http://www.dps.siu.edu) (disaster drop down) and in an Emergency Response Guideline pamphlet. Know how to respond to each type of emergency.

Instructors will provide guidance and direction to students in the classroom in the event of an emergency affecting your location. It is important that you follow these instructions and stay with your instructor during an evacuation or sheltering emergency. The Building Emergency Response Team will provide assistance to your instructor in evacuating the building or sheltering within the facility.

**Reading Assignments:**


2nd Class (Thursday, August 29, 2013): Newman Casebook pages 13-29 middle; excerpts included in syllabus for Cesarini v. U.S., 296 F. Supp. 3 (D. Ohio 1969) (3 pages) and “One Way to Avoid Tax on Found Items” (1 page); skip Casebook pages 31–33 middle regarding imputed income; 4-page excerpt in the syllabus on the Oscar Goodie Bags beginning with “And the Losers Are . . . All the Oscar Nominees!; Casebook 33 bottom-44 top; 3-page
excerpt included in syllabus on Gamble v. Commissioner; 68 T.C. 800 (1971); Skip 44-52 middle (the Zarin case and notes thereafter).

3rd Class (Thursday, September 5, 2013); Casebook pages 52 bottom-60 top; 2-page excerpt included in the syllabus on the “Magic of Debt”; Skip Casebook pages 60-75; Casebook pages 76-84 top; Skip Casebook pages 84-88 bottom; Casebook pages 88 bottom to 89 top (employee gifts); Casebook 89 middle-90 top (Problems #3 to #8); Skim pages 91 middle-93 (tipping); Casebook pages 93-101; Casebook 102 bottom – 103.

**General Overview of Course (Subject to Change):**

UNIT I – GROSS INCOME (as described above).

UNIT II – BASIS & DEBT (as described above)

UNIT III – INCOME; EXCLUSIONS (initial material as described above)
Fringe Benefits
Pages 103-109
(Skip the Haverly case on pages 109 - 111)
Pages 111-122
Pages 122-125 Scholarships & Awards
Pages 125-127 Damages
(skip Murphy v. Internal Revenue Service on pages 127-133)
Pages 133-139 (Amos case and problems)
(Skip Tax-Exempt Bonds materials on page 139)

UNIT IV – BUSINESS DEDUCTIONS: BASIC PRINCIPLES
Pages 140-177 General Discussion; Welch & Its Progeny; Causation
(skip Kopp’s Company case on pages 171-174)
(skip Californians Helping to Alleviate case on pages 178-183)
Pages 183-191 Salary

UNIT V – CHARITABLE CONTRIBUTIONS & TAX-EXEMPT ORGANIZATIONS
Pages 550–576 (skip United States v. Kuch on pages 566 – 568; skip for now the material on contributions of appreciated property on pages 569-571)

UNIT VI CASUALTY LOSSES
Pages 576-588

UNIT VII – BUSINESS DEDUCTIONS: CAPITAL RECOVERY & DEPRECIATION
Pages 192-207 Capital Expenses
(skip Indopco, Santa Fe Pacific Gold, and Robinson Knife 207-228)
Pages 229-230 Depreciation
(skip the Fribourg Navigation Company case on pages 230 bottom-232)
Pages 233-243 More Depreciation
Pages 243-244 Annuities
Skip top of page 245 on “Payment of Life Insurance Proceeds at a Date Later than Death”
Pages 245-259 Inventories (SKIM discussion of LIFO and FIFO on pages 246-248 top)
(skip pages 259 bottom-263)

UNIT VIII – TIMING
Pages 264-274 General Accounting Principles
Pages 274 bottom-286 top - Annual Accounting & Its Exceptions
(skip pages 286 top – 290 middle)
Pages 290 middle–306 Accrual Accounting Revisited

UNIT IX – PERSONAL DEDUCTIONS & CREDITS
Pages 542-550 Structural Concerns
Pages 589-604 Medical Expenses (skip Finzer v. United States, pages 598-601)

UNIT X CAPITAL GAINS
Pages 307-323 Policy, Mechanics

UNIT XI MORE ON SALES [TIME PERMITTING]
(pages 569-571 – charitable contributions of appreciated property)
Pages 344 bottom-353 Sale of a Business/Sale of a Patent
Pages 605-606 Deferred Payment Sales
Pages 621-635 Non-Recognition Transactions
Pages 642-643 Sale of a Principal Residence

UNIT XII Practice Notes [time permitting]
One Way to Prepare, Brief, Analyze, Review, Etc., a Tax Case

[Note: In most respects tax cases are very similar to other cases we read in law school. Nevertheless, tax cases tend to have a few unique elements that suggest a slightly different structure to the analysis. First, often the initial relevant procedural step in the dispute is the taxpayer filing the tax return. Second, in a tax case the challenger is almost always the IRS. Third (perhaps sadly) the taxpayer, more often than not, is the loser.]

Task #1: **Summarize the Facts** – basically the taxpayer’s activity to receive the payment (in a case involving whether an amount received is taxable), or the taxpayer’s activity associated with making a payment (in a case involving whether an amount is deductible).

Task #2: **What Did the Taxpayer Report** (or Fail to Report) on the Tax Return that the IRS Challenges?

Task #3: **The Losing Side’s Arguments** (usually the Taxpayer)

First Part: What Was the Taxpayer’s [Statutory or Regulatory] Authority for Claiming the Tax Position on the Tax Return?

Second Part: What Are the Taxpayer’s Arguments in Support of that Position?

Task #4: **The Winning Side’s Arguments** (usually the IRS)

First Part: Why Are the Taxpayer(s) Argument(s) Wrong?

Second Part: What Are the IRS’s Arguments?

Task #5: **Who Won? What Was the Result?**
Federal Income Taxation: Projected Reading Schedule 2013
(Subject to Change)

4th Class (Thursday, September 12, 2013)
Corpak page 33F (Divorce Tax)
103 bottom to 109 middle
Skip 109 middle to 111 middle (Haverly Case)
111 middle to 125 middle
Corpak 34A (rental value of parsonage)
Corpak pages 34B, 34C and 35 (regarding Maury Wills materials)

5th Class (Thursday, September 19, 2013)
125 middle to 127 middle
Skip 127 middle to 133 middle (Murphy v. Internal Revenue Service)
133 middle to 139 top
Corpak 40-43 (PLR 200041022 (10/13/2000) – the IRS’s “Bruise Rule” Ruling
Skip 139 (tax-exempt bonds)
140-163
Corpak 46-48 (focus on illegal payments)

6th Class (Thursday, September 26, 2013)
Corpak pages 49-53 (Heineman v. Commissioner)
164-167 middle
Skip 167 middle to 175 (including Kopp’s Company case)
176-177 (Gilliam and Questions #1 through #3)
Skip 178-183 middle (Californians Helping to Alleviate Medical Problems)
Casebook 391-394 (Pevsner case)
Corpak pages 55 middle-58 (Hudgens case)
183 middle to 189 middle

7th Class (Thursday, October 3, 2013)
189 middle to 191
WRITING ASSIGNMENT HANDED OUT???
550 middle to 565 (SKIP pages 553-556 until next class)
Skip Corpak pages 59-65B (general materials on charities)
Corpak pages 66-78 (cases on charities and Revenue Ruling 64-275)

8th Class (Thursday, October 10, 2013)
Corpak pages 79-91 (charitable materials)
553-556 (Rev. Rul. 86-63)
568-569 (percentage limitations)
SKIP FOR NOW 569 bottom-571 top (Contribution of Appreciated Property)
571 middle – 575
576 middle-588 (casualties)
Corpak 93-96 (casualty materials)
9th Class *(Thursday, Oct. 17, 2013)*
Wrap-up casualty loss materials
192-207 bottom
SKIP 207 bottom – 228
229-230
SKIP 230 bottom - 232 (Freibourg Navigation case)
233-243 top

10th Class *(Thursday, Oct. 24, 2013)*
WRITING ASSIGNMENT DUE???
243-259 (ignore top of page 245 regarding life insurance, and only SKIM 246 & 247)
SKIP 259 bottom – 263
264-282 (including Hornung & Ames)

11th Class *(Thursday, Oct. 31, 2013)*
CATCH UP
283-286 top
SKIP 286-290 bottom
290 bottom – 306
542-549 (structural considerations)

12th Class *(Thursday, Nov. 7, 2013)*
589-598 (medical)
SKIP 598 middle – 601 bottom (Finzer case)
601 bottom - 604
Corpak 116-121 (including Schoene case and Thoene case)
307-324 top (capital gains)
Corpak 122-128 (including Bryam case)

13th Class *(Thursday, Nov. 14, 2013)*
No Additional Assigned Reading – Review Class

14th Class *(Thursday, Nov. 21, 2013)*
Final Topics – *SKIM ALL*:
569 bottom – 571 middle (Contributions of Appreciated Property)
344 bottom – 347 (Sale of Business)
642 middle – 643 middle (Sale of a Principal Residence)
621-635 (Non-Recognition Transactions)
347 bottom – 353 middle (sale of a patent)
605-606 (Deferred Payment Sales)

Thanksgiving Vacation Week!!!